IPSASB International Public Sector Accounting Standards Board®

AGENDA ITEM 7

MAKING MATERIALITY JUDGMENTS

IPSASB Meeting – December 2025

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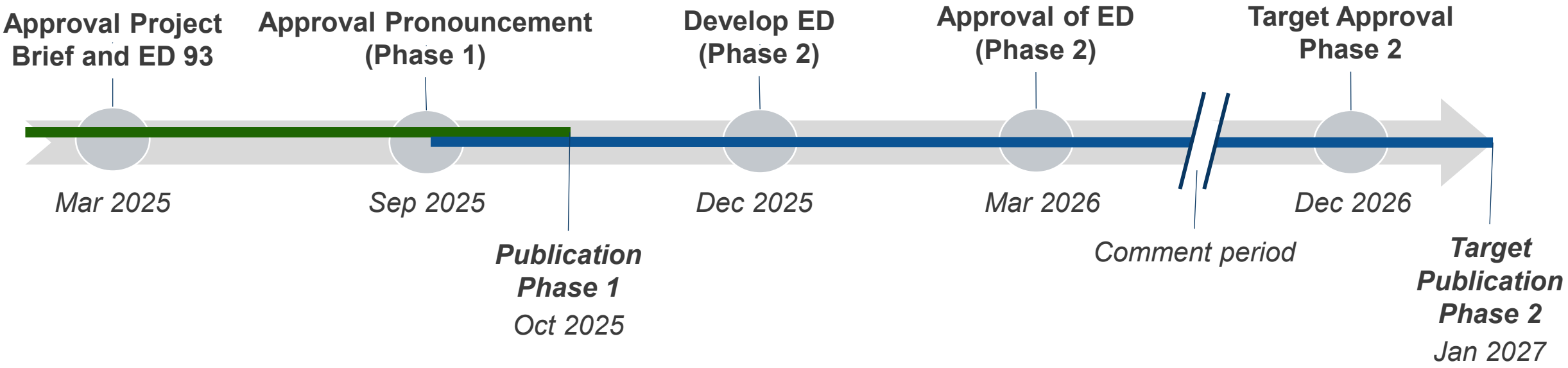
New York, USA

Making Materiality Judgments Project Overview



Phase 1. Review consistency of the definition of 'material' between the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ('Conceptual Framework') and IPSAS Standards and propose changes to achieve this

Phase 2. Materiality in IPSAS Standards: Development of non-authoritative guidance aligned with IFRS Practice Statement 2: Making Materiality Judgements ('Practice Statement 2')

Phase 3. Materiality in IPSASB SRS Standards: Development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS Standards

Making Materiality Judgments Project Overview (Phase 2)

Publication of the Definition of Material (Phase 1)
October 2025

- Clarified that decisions on materiality are intended to reflect the information needs of ***primary users.***
- Achieved alignment of the ***definition of material*** between the *Conceptual Framework* and IPSAS Standards.

Development of ED (Phase 2)
December 2025

Recommendations to the IPSASB:
- Outline of public sector making materiality judgments guidance;
- Public sector adaptations to PS2:
  - Content; and
  - Examples.

Development of ED Target Approval ED (Phase 2)
March 2026

Items for discussion Q1 2026:
- Additional public sector examples;
- Adaptation to 'Primary Users' and their Information Needs';
- Type of document;
- Page flip of ED; and
- Approval of ED.

Target Approval Pronouncement (Phase 2)
December 2026

Overview of Practice Statement 2 and Adaptations

- **What is IFRS® Practice Statement 2 *Making Materiality Judgements* (PS 2)?**
  - It is a stand-alone document that provides non-mandatory guidance on making materiality judgements when preparing financial statements in accordance with IFRS.
  - Entities are not required to comply with PS 2 to state compliance with IFRS Standards.
- **Why did IASB issue this guidance?**
  - To address the disclosure problem—companies provide too much irrelevant information and not enough relevant information in their financial statements.
  - Rather than using judgment to decide what information to provide in financial statements, some entities use disclosure requirements in IFRS Standards as if they were items on a checklist.
- **The following National Standard Setters (NSS) have adapted PS 2:**
  - AASB (Australia), ASB (South Africa), and SB FRS (Singapore).

Structure of Practice Statement 2 and NSS* document

1. Objective and Scope
2. General characteristics of materiality
   - Definition
   - Pervasiveness
   - Judgements
   - Primary users and their information needs
   - Impact of publicly available information
3. Interaction with local laws and regulations
4. Making materiality judgements
   - Overview of materiality process
   - A four-step process
5. Guidance on ‘specific topics’
   - Prior period information
   - Errors
   - Information about covenants
   - Materiality judgments for interim reporting
   - Information about accounting policies
6. Illustrative examples (throughout document)

* AASB (Australia), and SB FRS (Singapore).

PS2 Def. of Material and Comparison (IPSASB and NSS)

Definition of Material (PS 2)

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

Commonalities:

- Focus on the impact on users' decisions
- Targets primary users
- Includes qualitative and quantitative aspects
- Emphasize that materiality is entity-specific

Differences:

- The definition of primary users differs by the entity targeted:
  - **Public sector.** Service recipients and their representatives, and resource providers and their representatives. (IPSASB & ASB)
  - **For profit.** Existing and potential investors, lenders, and other creditors. (IASB, AASB, & SB FRS)
- 'Discharge of accountability' is added as a criterion for public sector entities. (IPSASB & ASB)

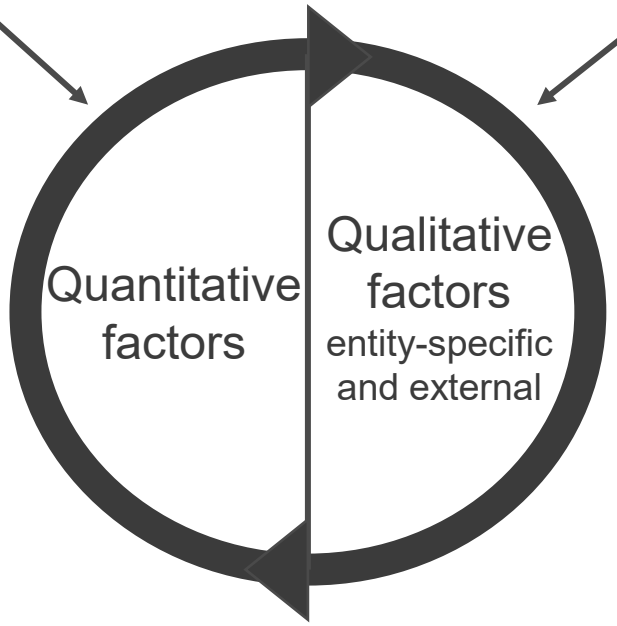
The Materiality Process – Four Step Process

Step 1
Identify

Requirements of IFRS Standards

Knowledge about primary users' common information needs

Step 2
Assess



One possible way to make materiality judgements

Step 3
Organize

Organize the information within the draft financial statements

Step 4
Review

Review the draft financial statements

IPSASB

Public Sector Adaptation of Practice Statement 2 Guidance

Analysis

- The development of making materiality judgment guidance follows the Process for Reviewing and Adapting IASB Documents.
- Adaptation of IFRS® Practice Statement 2: *Making Materiality Judgments* (PS2) is based on maintaining consistency with:
  - The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities; and*
  - IPSAS Accounting Standards.
- The level of revisions to PS2 can be grouped:
  - Editorial;
  - Adaptation; and
  - Deletion.

Recommendation

- Approve the proposed approach to develop public sector guidance on making materiality judgments:
  - Outline as per Agenda item 7.3.3
  - Exclude guidance on materiality judgments on interim reporting and accounting policies; and
  - Adaptation of guidance as per Agenda item 7.3.3

Public Sector Adaptations to Practice Statement 2 Examples

Analysis

- The development of making materiality judgment guidance follows the IPSASB process for adapting IASB documents.
- Adaptation of PS2 is based on maintaining consistency with:
  - The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities; and*
  - IPSAS Accounting Standards.
- Examples may be added or deleted when clearly inappropriate for or inapplicable to the public sector.
- The level of revisions to PS2 can be grouped:
  - Editorial;
  - Adaptation; and
  - Deletion.

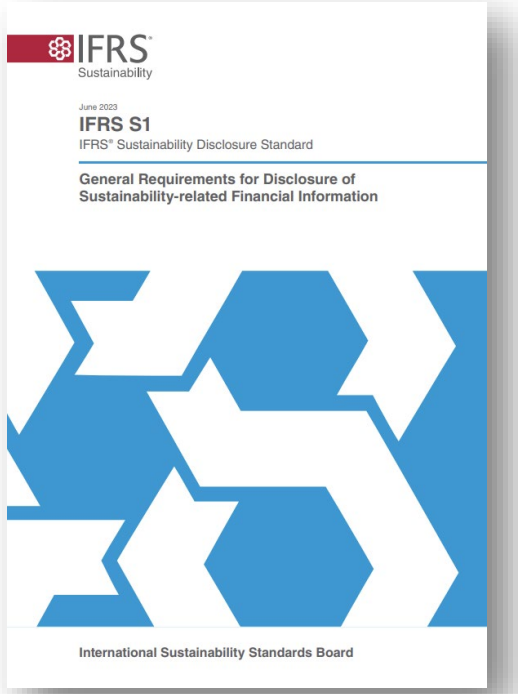
Recommendation

- Approve the proposed approach to develop public sector examples on making materiality judgments as per Agenda Item 7.3.3

EDUCATION SESSION
ISSB MATERIAL

SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES, AND THE DISCLOSURE OF MATERIAL INFORMATION

Materiality in IFRS S1 and IFRS S2



IFRS S1 introduced the definition and application of 'materiality' in the context of sustainability-related financial disclosures

This underpins the application of **IFRS S1** and **IFRS S2**

Overview of ISSB Educational Material

- Stakeholders to draft IFRS S1 held mixed views on whether the definition of materiality was clear in the context of sustainability-related financial disclosures.
- In its feedback statement to the draft IFRS S1, the ISSB committed to provide additional guidance through educational material.

What is the ISSB's Educational Material on *Sustainability-related risks and opportunities, and the disclosure of material information?*

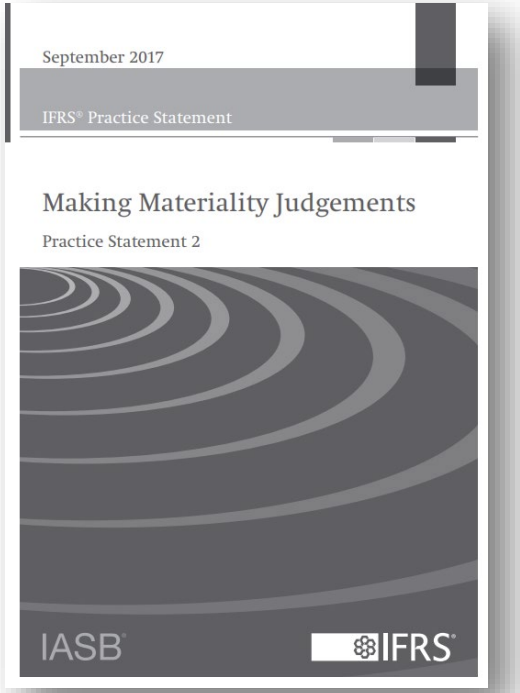
- The document was developed by ISSB staff with Board member involvement and published in November 2024.
- It is a standalone document developed to aid stakeholders' understanding of the ISSB Standards. It is educational in nature, and is not part of the ISSB Standards.
- This guide sets out key considerations on material information to support the implementation of ISSB Standards around the world.

Overview of ISSB Educational Material

Structured into three chapters and appendices:

- Chapter 1—The definition of material information and its application in ISSB Standards
- Chapter 2—Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in ISSB Standards
- Chapter 3—Identifying and disclosing material information
- Appendix A—Using IFRS S2 to identify climate-related risks and opportunities
- Appendix B—Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain
- Appendix C—Interaction of ISSB Standards with law or regulation

Ch.1 Definition of ‘Material Information’

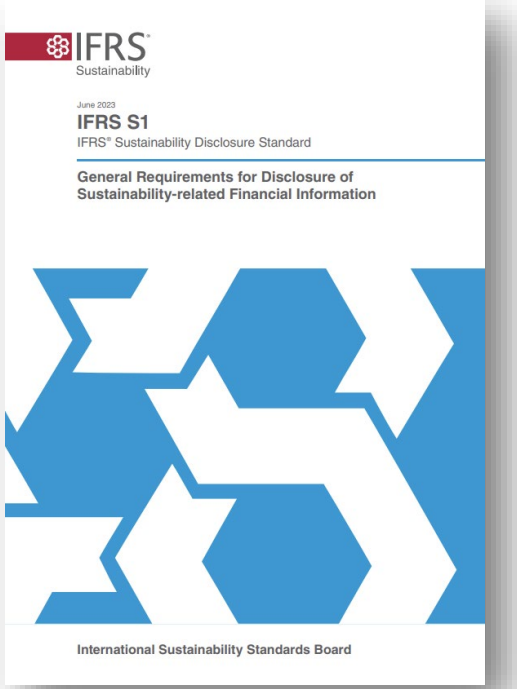


Aligned definitions of ‘material information’

Focuses on information reasonably expected to influence primary users’ decision-making

Targets primary users of GPFRs

Emphasizes that materiality is entity-specific



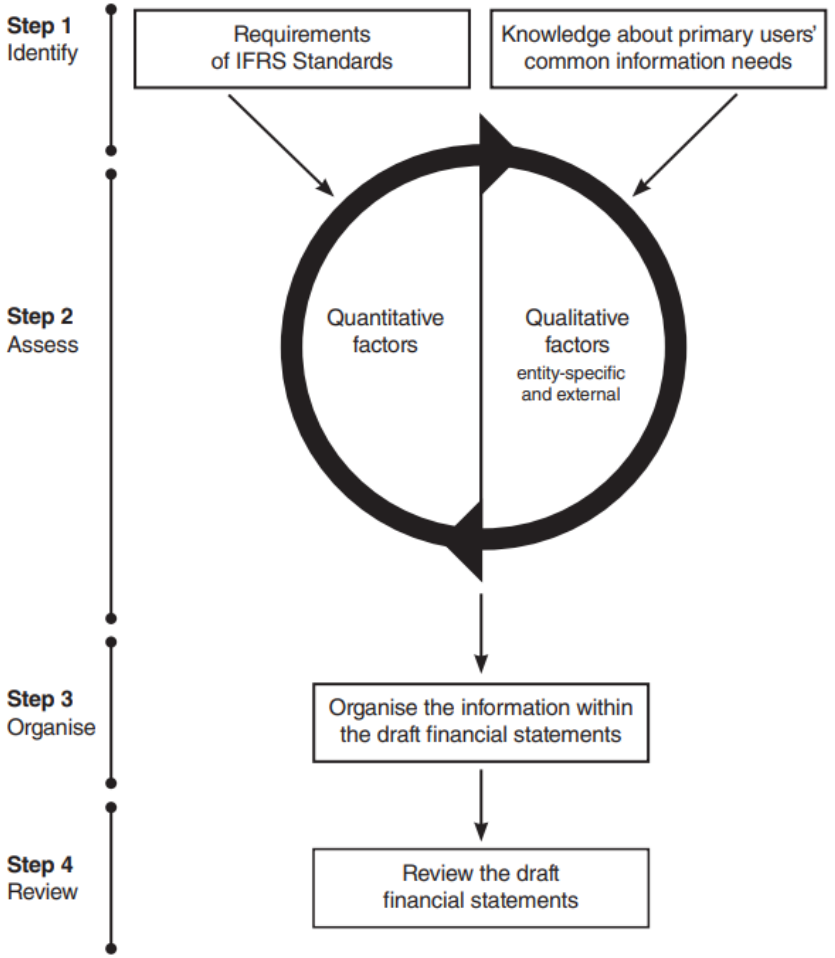
Ch.2 Sustainability-related Risks and Opportunities

Sequential concept in considering sustainability-related risks and opportunities:	Example of guidance provided in the Educational Material:
The value chain	Example – Sustainability-related risks and opportunities faced by business partners in an entity's value chain
Resources and relationships	Example – Groups of resources and relationships, including those internal (e.g. an entity's workforce) and external (e.g. with customers)
Dependencies and impacts	Example – Scenario where a sustainability-related opportunity arises from its dependency and relationship
Sustainability-related risks and opportunities that could reasonably be expected to affect prospects	Example – How an entity may refer to sources of guidance, such as disclosure topics in the SASB Standards

Ch.3 The Materiality Process

Step
1. **Identify** information about sustainability-related risks and opportunities with potential to be material
2. **Assess** whether the potentially material information identified in Step One is, in fact, material
3. **Organize** the information within the draft sustainability-related financial disclosures
4. **Review** the draft sustainability-related financial disclosures

IFRS Practice Statement 2: Making Materiality Judgements



Ch.3 The Materiality Process

Step	Output
1. **Identify** information about sustainability-related risks and opportunities with potential to be material	A set of potentially material information
2. **Assess** whether the potentially material information identified in Step One is, in fact, material	A preliminary set of material information
3. **Organize** the information within the draft sustainability-related financial disclosures	Draft sustainability-related financial disclosures
4. **Review** the draft sustainability-related financial disclosures	Final sustainability-related financial disclosures

Ch.3 The Materiality Process

Step	Further Guidance Includes
1. **Identify** information about sustainability-related risks and opportunities with potential to be material	Process diagram for applying IFRS S1 for all sustainability-related risks and opportunities
2. **Assess** whether the potentially material information identified in Step One is, in fact, material	Considering entity-specific and external qualitative factors, assessing possible future events based on probability and impact
3. **Organize** the information within the draft sustainability-related financial disclosures	Circumstances that might result in material information being obscured
4. **Review** the draft sustainability-related financial disclosures	Process in which an entity 'steps back' and considers its sustainability-related financial disclosures as a whole

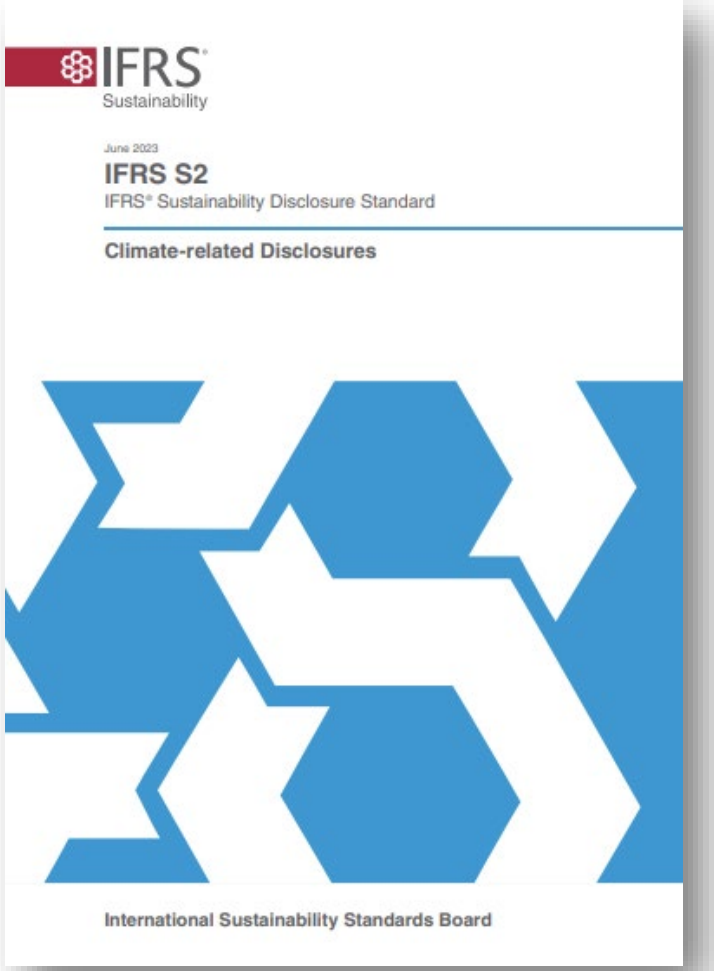
Connectivity and Interoperability Considerations

Connectivity considerations and **interoperability considerations** are provided across chapters for preparers to consider materiality in ISSB Standards in the context of connectivity with financial statements and interoperability with other standards:

Connectivity Considerations
• Particularly for preparers with a financial reporting background who are applying ISSB Standards • Aligned definitions of ‘material information’ with IFRS Standards • Similar ‘four-step materiality process’ to IFRS Practice Statement 2 *Making Materiality Judgements*

Interoperability Considerations
• For preparers applying ISSB Standards alongside the European Sustainability Reporting Standards (ESRS) and Global Reporting Initiative (GRI) Standards • Interpreting “material information” in ISSB Standards in the context of ESRS and GRI Standards

Appendix A – Applying IFRS S2



Examples of applying IFRS S2 to identify sustainability-related risks and opportunities

Climate-related physical risks	Damage to manufactured assets that could affect future cash flows through disruption to operations and the need to repair the asset
Climate-related transition risks	The jurisdiction where the entity operates imposes a carbon tax that could affect future cash flows
Climate-related opportunities	Potential for developing new products to meet shifting consumer preferences and enhance the entity's brand reputation, resulting in new revenue streams

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